ASSESSMENT OF THE PROBLEMS OF SOCIAL-ECONOMIC ASPECTS OF SELF–EMPLOYMENT

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Abstract
Employment constitutes a fundamental indicator of economic development and growth; consequently, employment policy is integral to national and regional socio-economic strategies. Self-employment serves as a vital form of labour market participation, widely adopted in Latvia and other European Union (EU) member states as a mechanism for entrepreneurial initiation and labour market integration. According to Eurostat data, in 2023, the EU-27 recorded 26.0 million self-employed individuals, comprising 13.0% of the total employed population (199.6 million). Despite its widespread presence across EU member states, self-employment is associated with certain adverse characteristics. The self-employed status can be exploited to circumvent tax obligations and labour law compliance, predominantly benefiting employers by enabling labour cost reduction. However, such practices may significantly constrain self-employed individuals' access to social protection mechanisms, thereby adversely affecting their quality of life and overall well-being in the context of multiple social risk contexts, including incapacity, disability, and retirement. This research examines the facilitating and constraining factors influencing the socio-economic environment of self-employed individuals in Latvia, incorporating insights from experts in the field of self-employment. Based on the research findings, two prospective scenarios have been formulated to enhance the socio-economic conditions of self-employed individuals.
Keywords: self-employment, taxes, socio-economic aspects.

Introduction

In contemporary labour markets, flexible employment forms, including self-employment, are gaining increasing popularity among both employees and employers due to their various advantages. Self-employment provides greater autonomy and personal independence, facilitates labour market entry and retention, and enables individuals to generate additional income alongside their primary employment.

The scientific literature presents divergent perspectives on the role and significance of self-employment. Some scholars conceptualise it as a flexible form of employment that enhances labour market adaptability and economic dynamism (Davidsson & Henrekson, 2007; Millan et al., 2010; Purcell, 2000). Conversely, other researchers (McKeown, 2015) argue that self-employment, in certain cases, may represent a form of involuntary employment or even an 'escape' from traditional employment structures, often driven by precarious working conditions and employer-imposed constraints.

Self-employed persons or the self-employed in the sense of the present research are natural persons who perform the economic activity, i.e. self-employed individuals, **individual merchants (IK)**, farm owners (FO) and fishing undertaking owners (FUO) as well as royalty recipients.

Research hypothesis - by evaluating the factors influencing the socio-economic environment of self-employment in Latvia, it is possible to develop measures and scenarios that foster the development of self-employment.

The object of the research is the socio-economic environment of self-employment, the subject of the research is the possibilities of improving the legal status of self-employed persons, tax and accounting records, as well as social insurance. The research aim is to analyse the factors influencing the socio-economic environment of self-employment, to develop and evaluate scenarios that would promote the development of self-employment in Latvia. To achieve the aim of the research, the following tasks were set: 1) to identify the factors facilitating and inhibiting the socio-economic environment of self-employment; 2) to develop scenarios and proposals for improving the socio-economic environment of self-employment. The research was conducted between March and May 2023.

Materials and Methods

PEST analysis is used to group socio-economic factors. The research employs the expert survey method to ascertain expert opinions and evaluate factors influencing the socio-economic environment of self-employment in Latvia. The scenario method is applied to develop self-employment development scenarios in Latvia based on the information obtained in the research. The analytic hierarchy process (AHP) method is used to determine experts' assessments of the developed scenarios.

To achieve the research objectives, publications by Latvian and international scholars in international scientific databases, laws of the Republic of Latvia, regulations of the Cabinet of Ministers, planning documents, studies conducted by European Union institutions, informative reports from the Ministry of Welfare and the Ministry of Finance, data from the Central Statistical Bureau, the State Revenue Service, and Eurostat, as well as interviews conducted by the authors, have been utilized.

Results and Discussion

Statistical data indicate that self-employment plays a stable role in the labour market both in the EU member

states (where self-employed individuals accounted for 13.0% of total employment in 2023) and in Latvia (where the share was 13.3% in 2023). This demonstrates a consistent proportion of self-employment at both the national and European levels. Self-employed individuals are driven by various motivations to engage in this form of work.

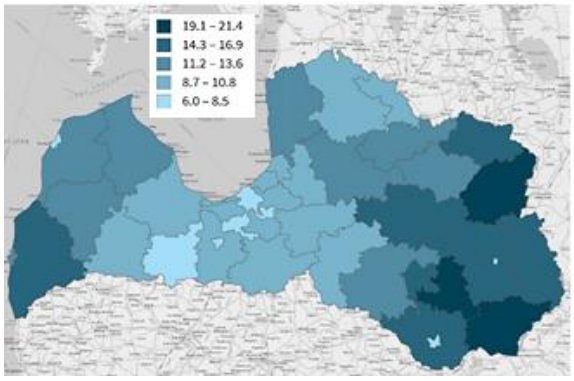
One of the motivations for self-employment is the reduction of taxable income and social security contributions, sometimes referred to as 'cost optimisation'. Here, self-employment is regarded as an exception in the labour market (Johansson, 2005; Szaban, 2018). According to some researchers (Vosko, 2006; Wall, 2015; Hughes, 2006), a defining feature of self-employment is its inherent instability, which they view as a negative aspect. The sources of this instability are linked to factors like lower social benefits, elevated risk, low income, and a lack of job security. On average, the share of self-employed individuals in Latvia and EU member states stands at 13.0%; however, in certain rural regions of Latvia, it reaches as high as 21.4%.

This disparity highlights the significant role of self-employment in rural development, as it fosters economic growth and provides sources of income. Self-employment contributes by creating new jobs for local residents and reducing unemployment, supporting the development of local products and services such as home - production, craftsmanship, and ecotourism, as well as promoting financial independence and reducing reliance on urban labour markets.

In 2023, the share of self-employed individuals among the employed population in Latvia was 13.3%. This figure varies across administrative territories, ranging from 6.0% in Olaine Municipality to 21.4% in Preiļi Municipality 'Figure 1'.

Figure 1

Percentage of self-employed workers among the employed population in Latvia's administrative divisions in 2023



Source: authors' construction based on CSO data, 2025.

The highest percentage of self-employed individuals within the employed population is found in the Latgale region: Preiļi Municipality (21.4%), Krāslava Municipality (19.5%) and Balvi Municipality (19.1%). In the Kurzeme region, the highest shares are recorded in Dienvidkurzeme Municipality (15.4%) and Kuldīga Municipality (13.6%).

Moreover, in Latvia, farms (farm owners FM) are predominantly small-scale and managed by their owners, who, according to regulatory provisions, are also classified as self-employed individuals. For example, in 2023, farms accounted for 20.0% of all registered enterprises in Preiļi Municipality and 16.4% in Balvi Municipality.

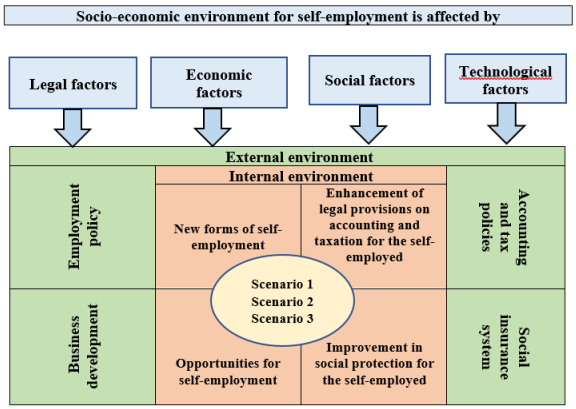
In 2023, 27,2 thousand self-employed individuals belonged to the occupational group *'Skilled agricultural, forestry, and fishery workers',* accounting for 23.0% of all self-employed persons. By 2024, this number had increased to 29,2 thousand or 24.3%.

This group includes individuals engaged in crop cultivation, harvesting, livestock production, forest management and conservation, fish farming and fishing, as well as hunting. Statistical data highlight the significant role of self-employment in rural regions, underscoring the need to promote self-employment in these areas by improving working conditions and support mechanisms.

Within the research, a conceptual structure for the internal and external environment was developed 'Figure 2'. Through a PEST analysis, it was identified that the socio-economic environment of self-employment is impacted by legal, economic, social, and technological factors.

Figure 2

The conceptual structure of the research's internal and external environment



Source: authors' construction.

The legal factors influencing self-employment include tax and accounting policy frameworks for self-employed individuals, conditions for accessing and obtaining funding, overall national employment policy, and the legal framework regulating self-employment.

The economic factors of self-employment reflect broader economic processes within the country that impact the well-being of self-employed individuals, the level of taxation they are subject to, and their participation in the labour market.

The social factors of self-employment pertain to cultural attitudes, ethical beliefs, shared values, lifestyle differentiation, demographics, education levels, and social protection.

The technological factors influencing self-employment are linked to advancements in technology that may transform the nature of self-employment. Technology drives innovation and reduces costs.

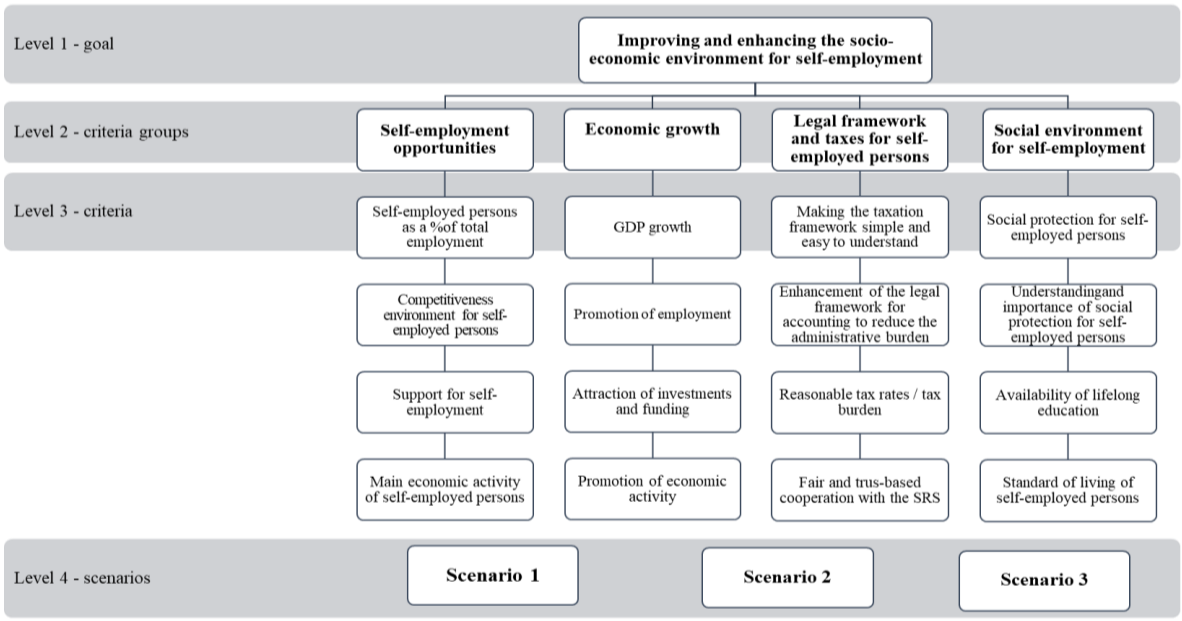
Given the significance of all these factors (legal, economic, social, and technological), to refine the scope of this research, one key factor from each category is selected: **the legal framework of self-employment** (legal factor), **the level of taxation** (economic factor) and **social protection** (social factor).

In March 2023, an expert survey was carried out to evaluate all relevant factors. Experts were invited to complete a questionnaire addressing the issue of 'Enhancing and improving the socio-economic environment as a necessity for promoting self-employment in Latvia'.

The purpose of the survey was to collect expert opinions on the deficiencies in Latvia's legal, tax, accounting, and social insurance systems and possible reforms. A total of seven experts participated, representing various fields and levels, including inspectors from the State Revenue Service, an accountant, a tax consultant, a professor, and a representative from the Ministry of Finance, all of whom deal with aspects of self-employment. The questionnaire was segmented into three main sections: an assessment of legal, economic, and social factors. Each section included multiple factor elements, which were evaluated on a scale from 1 to 5, where: 1 - unsatisfactory; 2 - rather unsatisfactory; 3 - rather satisfactory; 4 - satisfactory; 5 - very good. After evaluating the factor elements, respondents were prompted to share their views on the current regulatory framework, tax and accounting policies, and the social insurance system for self-employed individuals.

Figure 3

Criteria hierarchy for evaluating improvements and advancements in the socio-economic environment for self-employment



Source: authors' construction.

The legal factors affecting self-employed individuals in Latvia are viewed by experts as generally satisfactory. Among the four evaluated elements (procedures for registration and termination of self-employment; application of regulatory acts for accounting under the single-entry system; the accounting process itself under the single-entry system; and the possibility of using a simplified tax payment solution), the lowest-rated aspect was the application of regulatory acts for accounting under the single-entry system. Experts noted that the regulatory requirements are overly complex and numerous, making them difficult for self-employed individuals to navigate.

According to experts, the tax system for self-employed individuals (general tax regime, micro-enterprise tax, and reduced patent fee) is assessed as satisfactory. Among these tax regimes, the general tax regime was considered the most complex and rated as rather satisfactory, as self-employed individuals must have extensive knowledge of numerous regulatory acts to correctly calculate their taxes.

Experts rated the taxation of royalty recipients as rather satisfactory. However, there were differing views on whether recipients of royalties should be mandated to register as economic operators and select a suitable tax regime, or if they should stay unregistered and pay only royalty taxes. Experts

evaluate the social insurance system under both the general tax and micro-enterprise tax regimes as satisfactory. However, experts acknowledged that the calculation of mandatory state social insurance contributions under the general tax regime is complex. Self-employed individuals must calculate two types of social insurance contributions (31.07% and a 10% pension insurance contribution), and the State Social Insurance Agency may impose additional minimum social insurance contributions.

The Analytic Hierarchy Process (AHP), developed by American scientist T. L. Saaty (Saaty, 1980), was used to identify the most suitable development scenario for enhancing the socio-economic environment for self-employed individuals. To help experts understand the criterion groups and individual criteria, a document titled 'Description of criterion groups and individual criteria for the enhancement and improvement of the socio-economic environment of self-employment' was developed 'Figure 3'.

The authors present three potential scenarios for the improvement of the socio-economic environment for self-employed individuals in Latvia: **Scenario 1:** The existing tax and accounting system for self-employed individuals. **Scenario 2:** A revised tax and accounting system for self-employed individuals without a separate category for royalty recipients. **Scenario 3:** A revised tax and accounting system for self-employed individuals with a distinct category for royalty recipients. The subsequent section provides a detailed analysis of these potential scenarios for improving the socio-economic conditions of self-employment.

Scenario 1 represents the current system of accounting and tax calculation for self-employed individuals.

The objective of Scenario 2 is to categorise self-employed individuals based on income levels and professional activity. The core concept is to simplify both tax payments and accounting for self-employed individuals who generate additional income or have an annual income of up to €50,000 (before VAT registration). Description: the existing three tax regimes - micro-enterprise tax, personal income tax under the general regime, and the reduced patent fee - as well as the mandatory minimum state social insurance contributions, would be restructured as follows: the **micro-enterprise tax** would be replaced with a **self-employment tax**, applicable to self-employed individuals, **individual merchants (IK) and farm holdings (FM)** would continue to be taxed under the existing general tax regime with certain modifications; the **reduced patent fee** would be retained in its current form.

Recipients of royalties would register as self-employed individuals and pay one of the taxes available to self-employed persons, without distinguishing them as a separate category of royalty recipients, as planned from 1 January 2028.

As a result of rapid globalization and the growing opportunities offered by the internet, various platforms for generating additional income have become widely used in Latvia. Therefore, implementing a distinct tax regulation for this group is recommended. The authors propose dividing self-employed individuals into two categories: those providing services and those engaged in the production and/or sale of goods, applying different tax rates to the income of each group. A 25% self-employment tax would be applied to those offering services, such as working on digital platforms like Bolt and Wolt, as well as engaging in activities such as creative work, beauty services, private tutoring, childcare, cleaning services, language translation, event planning, tourism services, advertising revenue from various websites, car and equipment repairs, lawn mowing, and similar occupations.

For self-employed individuals engaged in producing and selling goods or renting personal property, a 15% self-employment tax rate is recommended. This group would consist of craftsmanship (such as jewellery making), the trade of handmade goods at local markets and fairs, product sales on platforms like Etsy, Printful, and Printify, mobile trading, guest accommodation through Airbnb and Booking.com, the sale of homemade food and beverages, selling tools and equipment on eBay, car rentals, and all other activities related to the trade of goods. This tax system would be available until the VAT registration threshold is met. The paid tax amount would be allocated in an 80/20 ratio, meaning 80% would be directed towards social insurance contributions and 20% towards personal income tax. If self-employment serves as a supplementary source of income, tax reliefs - such as allowances for dependents and the taxpayer's annual non-taxable minimum - could be applied to the primary place of employment without forfeiture. This system would provide self-employed individuals with coverage under five types of social insurance: state pension, disability, maternity, paternity, sickness, parental, and health insurance. However, they would not be insured against workplace accidents, occupational diseases, or unemployment. A mandatory requirement would be a separate settlement account or a business income account, with all transactions conducted via non-cash payments - either by bank transfer or through payment card terminals - thus reducing cash circulation. This strategy would decrease the administrative burden for self-employed individuals, as bookkeeping would no longer be required, and the number of reports submitted to the State Revenue Service would be reduced.

If a self-employed individual's annual income surpasses the VAT registration threshold, they must sign up for VAT as a self-employed person, individual merchant, or farm operator and follow the standard tax system. This system would largely remain unchanged, with some modifications - the social insurance contribution rate would be aligned with the rate for employees (34.09% in 2025) and this contribution would be mandatory based on the state-defined minimum wage, ensuring higher contributions to the

national social security budget and complete social protection for self-employed individuals. If a self-employed person wished to receive additional social insurance coverage, voluntary contributions above the minimum wage would be permitted. The State Revenue Service would conduct various informational campaigns (via social media, TV) to raise awareness of the importance of social insurance and its benefits. In this case, self-employed individuals would be entitled to comprehensive coverage across all seven types of social insurance, just like employees. This includes state pension insurance, disability insurance, maternity and paternity insurance, sickness insurance, parental insurance, health insurance, work accident and occupational disease insurance, as well as unemployment insurance. The progressive personal income tax rate would be retained. Additionally, self-employed individuals would have the flexibility to choose whether to conduct all transactions through non-cash payments using a dedicated bank account or to allow cash transactions while maintaining single-entry bookkeeping.

Scenario 3 – a new tax and accounting framework for self-employed individuals, differentiating those who earn royalties. Across various EU member states, individuals earning royalties are treated separately from self-employed individuals. In Latvia, a transition period has been established for authors, but from **January 1, 2028**, royalty recipients will be required to register as self-employed individuals and pay taxes themselves.

Table 1
Expert rating of criteria group

Criteria groups	*Experts*							*Average*
	1	*2*	*3*	*4*	*5*	*6*	*7*	
Self-employment opportunities	0.34	0.12	0.05	0.52	0.16	0.11	0.05	0.19
Economic growth	0.06	0.57	0.16	0.05	0.06	0.06	0.15	0.16
Legal framework and taxes for self-employed persons	0.16	0.13	0.57	0.30	0.54	0.31	0.57	0.37
Social environment for self-employment	0.44	0.17	0.22	0.12	0.24	0.53	0.23	0.28

Source: authors' calculations based on the expert survey, experts 7.

During the transition period, the **royalties payer withholds a 25% tax**, which is distributed as follows: **80% – social insurance contributions, 20% – personal income tax.**

Royalties recipients should be treated separately from self-employed individuals. Scenario 3 builds upon Scenario 2, with the key difference being that royalties recipients are not required to register as self-employed individuals unless their annual turnover from royalties exceeds €50,000. If their annual royalties income surpasses this threshold, they must register as self-employed individuals.

If royalties are paid by a collective management organisation for copyright and related rights, taxation and payment procedures remain unchanged.

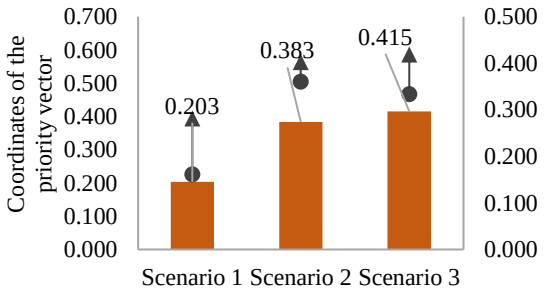
Under Scenario 3, royalties recipients remain subject to royalties tax until their annual turnover reaches €50,000. A 25% tax is withheld from royalties income, which is allocated as follows: **80% –social insurance contributions, 20% – personal income tax.**

The royalties recipient is insured under five types of social insurance: state pension insurance, disability insurance, maternity, paternity, and sickness insurance, parental insurance, and health insurance. However, they lack coverage for workplace accidents, occupational diseases, and unemployment, with no requirement for minimum social insurance payments. Income from royalties can be transferred to a personal bank account, eliminating the need for a dedicated business account. There is no requirement to maintain accounting records, as the payer of the royalties declares the relevant transactions, income, and withheld tax to the State Revenue Service. The expense norms specified in the Cabinet of Ministers regulations on the application of the *Personal Income Tax Law* (50% and 25%) are not applied. Conducting a hierarchical analysis of the enhancement and improvement of the socio-economic environment for self-employment, experts identified the criterion group 'Legal framework and taxes for self-employed persons' as the most significant among the four defined criterion groups. The average priority vector coordinate for this group is 0.37 (Table 1). Experts consider that the primary focus should be on the regulatory framework for self-employed individuals, which governs both accounting procedures and tax calculations. Experts number 3, 4, 5, 6, and 7 prioritised this criterion group, whereas experts number 1 and 2 identified different groups as their top priorities - namely, 'Self-employment opportunities' and 'Economic growth', respectively. When analyzing the current socio-economic conditions for self-employed individuals, experts offered the most feedback and

suggestions, particularly regarding accounting and taxation, with a focus on the legal-administrative environment and tax system. The following criterion group that requires adjustments to improve the socio-economic environment for self-employed individuals is the ‘Social Environment for the Self-Employed’, with an average priority vector coordinate of 0.28. Experts have considered ‘self-employment opportunities’ (0.19) and ‘economic growth’ (0.16) to be of lesser significance (Irmeja, 2023).

Figure 4

According to the expert, the most suitable scenario for advancing the socio-economic environment for self-employment



Source: the authors’ analysis based on the expert survey results, experts 7.

After evaluating the four criterion groups and sixteen criteria, experts have selected the third scenario, a new taxation and accounting system for the self-employed, separating royalties recipients as the optimal scenario, with a priority vector coordinate of 0.42. The second most optimal scenario is the second scenario – ‘a new taxation and accounting system for the self-employed, without separating royalties recipients’ -with a priority vector coordinate of 0.38. The first scenario, which involves the current taxation and accounting system for self-employed individuals in Latvia, was ranked third overall, with a priority vector coordinate of 0.20.

Conclusions

1. The percentage of self-employed individuals in Latvia’s employed population is slightly greater than the EU average, with figures of 13.5% and 13.0%, respectively, in 2023. In Latvia, this indicator varies by administrative territory, ranging from 6.0% in Olaine Municipality to 21.4% in Preiļi Municipality. In rural regions, self-employment has a significant impact on employment levels, with the highest proportion of self-employed individuals found in Preiļi Municipality (21.4%), Krāslava Municipality (19.5%), and Kuldīga Municipality (13.6%).
2. The socio-economic landscape for self-employment is shaped by legal, economic, social, and technological factors. Among these, experts evaluated the legal factor as somewhat satisfactory for self-employed individuals, highlighting the application of regulatory acts in accounting and the tax system for recipients of royalties. At the same time, the tax and social insurance systems for self-employed individuals were considered satisfactory, though experts highlighted the need for specific changes to tax regulations.
3. The research proposed two potential scenarios for enhancing the socio-economic environment for self-employment in Latvia: a new taxation and accounting system for self-employed individuals, either without distinguishing recipients of royalties or with a separate system for them. Experts identified the optimal scenario as the introduction of a new taxation and accounting system that specifically distinguishes recipients of royalties.

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